

2020

Travis County Auditor's Office Review of Facilities Management Lease Contracts



Travis County Auditor's Office
Risk Evaluation & Consulting Division
6/4/2020

TRAVIS COUNTY
AUDITOR'S OFFICE

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To: Roger El-Khoury
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From: Patti Smith, CPA
Travis County Auditor

Date: June 4, 2020

Subject: Facilities Management Lease Agreements Review

The Risk Evaluation and Consulting (REC) Division of the Travis County Auditor's Office has completed a limited scope review of lease and license agreements maintained by the Travis County Facilities Management Department (FMD). We conducted our review in accordance with the applicable statutes governing the County Auditor's Office and those relating to County financial and accounting protocols. As a result of our review, we are providing this report on our findings and recommendations.

Background

Travis County has entered into lease, license and service contracts/agreements with several entities. Under the lease and license agreements, the County provides buildings/building space and some parking spaces to these entities for agreed upon fee. Under the service agreements, entities provide a service to the County using County facilities and either pay the County a percentage of sales or a guaranteed minimum amount monthly/annually. Travis County Facilities Management collects the agreed upon monthly/annually fee and ensures the entities meet their contractual obligations.

Objective and Scope of Review

The primary objective of this review was to examine revenue assessment, collection, and documentation protocols for lease, license, and service contracts/agreements. In this review, we examined payments received by the County on these agreements during the period January 1, 2019 through December 31, 2019.

Review Methodology

Our work was based on applying sampling procedures to the entity's records and on verbal and written representations from department personnel. Sampling relates to examining, on a test basis, evidence supporting the amounts and disclosures in the financial records and statements. The use of sampling techniques would not necessarily disclose all matters related to these agreements that might be material weaknesses or misstatements. In regard to the written and verbal representations made by Facilities Management staff during this review, unless otherwise noted in this report, Facilities Management staff maintains that the assertions we relied upon during this review were correct to the best of their knowledge.

Summary of Findings

During our review of these Lease Agreements, we noted that six tenants/licensees did not remit their contractually-required payments in a timely manner.

Examination Team

Angel Candelario, Senior Auditor

Closing

This report is intended solely for the information and use of Facilities Management and the Commissioners' Court. We greatly appreciate the cooperation and assistance received from management and staff of Facilities Management during this examination. Please contact us if you have any questions or concerns regarding this report.

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Travis County Auditor

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AREAS OF CONCERN

1. Timeliness of Payments

During our review, we identified six tenants/licensees that did not pay their contractually-required monthly payments in a timely manner. These issues are detailed below:

- Accent Food Services contract – payments for all 12 months of calendar year 2019 were between 2 and 108 days late.
- Central Health South contract – payment was 5 days late.
- Central Heath North, East and West contract – payment was 245 days late.
- Housing Authority of Travis County contract – payments for nine months of calendar year 2019 were between 2 and 25 days late.
- Austin/Travis County Sobriety Center contract – as of the date of our testing, this entity had made none of their 12 contractually-required \$10 monthly payments for calendar year 2019
- Travis County ESD #6 contract – payment was 142 days late.

Significance

In agreements between Travis County and the Tenants/Licensees, there are sections that state the specific date each payment is due. Tenants and licensees are therefore contractually obligated to pay on or before that due date. Facilities Management Department (FMD) is responsible for tracking these payments and pursuing collection protocols when payments are not received timely.

Recommendations

We recommend FMD improve their billing and collection efforts for contractual account receivables.

Management Response

The Facilities Management Department has implemented tracking mechanisms to help improve the timeliness of our collections efforts. Going forward for new contracts and contract renewals, FMD will attempt to consolidate monthly payments into single annual payments, which we will attempt to collect at, or prior to, the beginning of the contract period in order to minimize collection issues. All 2019 income due has been collected and no County revenue was lost.

2. Luby's Fuddruckers LLC (Cafeteria Concession Services) Contract No. 4500000361

The tenant provides a monthly memo that states gross sales, however, verification or reconciliation of the amounts reported does not occur.

Significance

In the Contract, between Travis County and Luby's Fuddruckers Restaurants, LLC, Section 4.3 states the following (see next page):

Concessionaire shall prepare and maintain during the term of this contract accurate separate and complete records and accounts reflecting the state of inventory, sales, and expenses. Said records and accounts shall be subject to examination and audit by the County at any reasonable time. The County further reserves the right to take an inventory of Concessionaire's stock at any reasonable time.

Recommendation

We recommend Facilities Management request, at a minimum, semiannually copies, records, and accounts reflecting the state of inventory, sales and expenses, to validate the monthly memorandums submitted by Luby's.

Management Response

The Facilities Management Department (FMD) had no sign of sales being underreported. FMD will request copies of the records and accounts on a semi-annual basis. The fixed monthly payments were received timely.

3. Sterling Events Hospitality (License Agreement) Contract No 4500000710

Sterling Events Hospitality did not remit the County's portion of gross receipts from concessions sales in a timely manner during the period of this review.

Significance

In the License Agreement between Travis County and Sterling Events Hospitality, Section 3.4 states the following:

Licensee shall make the Gross Receipts Percentage Payment, as such term is defined below, to the County five (5) after each event, excepting only the month of the "Rodeo Austin Use Period.

Recommendations

According to Facilities Management, Sterling is unable to meet the contractual payment terms of five days after the event payment due to logistical issues. We recommend Facilities Management consider amending the contract to address this issue with the Gross Receipts Percentage payment timeline.

Management Response

Sterling is able to consistently remit all funds due for a month by the 10th day of the following month. Effective May 19, 2020, the Facilities Management Department received approval from the Commissioners Court on an amendment to the license agreement updating this revised payment timeline.